

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-04 AGR-05 COME-00 TRSE-00 L-01

CIAE-00 INR-05 NSAE-00 RSC-01 SAB-01 TAR-01 SWF-01

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R 172220Z OCT 74

FM AMEMBASSY PANAMA

TO SECSTATE WASHDC 2068

INFO AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

USSOUTHCOM

C O N F I D E N T I A L PANAMA 6031

EO 11652: GDS

TAGS: ETRD, PN

SUBJ: BANANAS: GOP AND UB MEET FOR ANOTHER ROUND

REF: (A) PANAMA 5654; (B) PANAMA A-194

SUMMARY: LATEST MEETING BETWEEN UNITED BRANDS REPRESENTATIVES AND COMMERCE MINISTER MANFREDO RESULTED IN POSTPONEMENT OF IMPLEMENTATION OF BANANA EXPORT TAX REVISION BUT NO REAL HEADWAY ON QUESTION OF TRANSFER OF COMPANY'S ASSETS TO GOP. MANFREDO SET JANUARY 1, 1975, AS DEADLINE FOR A CHANGE IN COMPANY'S STATUS IN PANAMA. UB HOPES BEGIN FORMAL NEGOTIATIONS NOVEMBER 6. END SUMMARY.

1. UNITED BRANDS NEW EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER, EDWARD GELSTHORPE, TOGETHER WITH UB VICE PRESIDENTS HARVY JOHNSON AND JOHN TAYLOR, CALLED ON ME TO GIVE THE FOLLOWING REPORT ON THEIR OCTOBER 16 MEETING WITH COMMERCE MINISTER MANFREDO AND OTHER MINISTRY OFFICIALS.

2. MANFREDO TOLD UB REPS THAT GOP INTENDED TO PROMULGATE OFFICIALLY ITS REVISED BANANA TAX FORMULA (REFS A & B) ON OCTOBER 17 UNLESS COMPANY WANTED AN EXTENSION. GELSTHORPE REPLIED THAT UB  
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SIMPLY COULD NOT AFFORD TO PAY EXPORT TAX, AS COMPANY IS IN VERY

SERIOUS FINANCIAL DIFFICULTIES; UB THIRD QUARTER STATEMENT WOULD SHOW HEAVY LOSSES BOTH IN BANANA OPERATIONS AND OVERALL. MANFREDO AGREED TO DELAY IMPLEMENTATION OF TAX REVISION FOR TWO WEEKS.

3. UB OFFICIALS INDICATED TO US THEY ARE NOT CERTAIN HOW TAX LIABILITY FOR INTERIM PERIOD FOLLOWING RESUMPTION OF SHIPMENTS IN SEPTEMBER WILL NOW BE HANDLED, BUT BELIEVE GOP WILL REQUIRE FULL DIRECT PAYMENT AT \$1.00 A BOX FOR SHIPMENTS AFTER SEPTEMBER 30, NOTWITHSTANDING PROVISIONS OF GOP-UB SEPTEMBER 3 AGREEMENT. UB REPS ARE ALSO CONCERNED THAT ABSENCE OF A SPECIFIC STANDARD IN NEW TAX REGULATION FOR DETERMINING AMOUNTS TO WHICH "PROFIT SHARING" LEVY WILL APPLY LEAVE MAGNITUDE OF TAX POTENTIALLY OPEN-ENDED.

4. WITH REGARD TO UB'S FUTURE IN PANAMA, MANFREDO INDICATED IN GENERAL TERMS THE NEED TO LAY GROUNDWORK FOR GOP TAKEOVER OF COMPANY'S PRODUCTIVE FACILITIES AND TO EXPLORE POSSIBILITIES OF A TRANSPORT AND MARKETING AGREEMENT WITH UB. HE TOLD THE UB REPS THAT A CHANGE IN THE COMPANY'S STATUS IN PANAMA WOULD HAVE TO BE ACHIEVED BY JANUARY 1, 1975, AND THAT IF BY DECEMBER 1 THERE APPEARED TO BE NO AGREED PLAN LEADING TO SUCH A CHANGE, THE GOP WOULD BE REQUIRED TO TAKE "NECESSARY LEGAL MEASURES." MANFREDO REQUESTED THAT UB SUPPLY ADDITIONAL FINANCIAL AND OTHER DATA ON COMPANY HOLDINGS IN PANAMA.

5. GELSTHORPE TOLD ME THAT UB WAS STILL GETTING MIXED SIGNALS REGARDING PANAMA'S TRUE INTENTIONS, AS THE COMPANY'S INDIRECT CONTACTS WITH GENERAL TORRIJOS INDICATED HE WAS NOT ANXIOUS AT THIS TIME FOR GOP TO TAKE ON PROBLEMS OF BANANA PRODUCTION AND PERHAPS DISTRIBUTION AND MARKETING AS WELL. AND WHILE MANFREDO HAD NOT BEEN ANTAGONISTIC IN THESE LATEST DISCUSSIONS, THE MINISTER STILL APPEARED TO BE A MAJOR STUMBLING BLOCK IN EFFORTS TO REACH SATISFACTORY RELATIONSHIP BETWEEN UB AND GOP. GELSTHORPE SAID MANFREDO APPEARS CONVINCED GOP CAN SUCCESSFULLY TAKE OVER BANANA PRODUCTION AND ALSO WIN AGREEMENT WITHIN UPEB FOR PRODUCTION RESTRICTIONS TO FORCE UP PRICES. MANFREDO INFORMED HIM THAT BOTH UB'S MAJOR COMPETITORS HAD APPROACHED GOP CONCERNING POSSIBLE MARKETING AGREEMENTS SHOULD PANAMA TAKE OVER PRODUCTION (A THREAT NOT LIKELY TO MATERIALIZE, ACCORDING TO THE UB REPS, CONFIDENTIAL

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BECAUSE OF DIFFICULTIES SUCH AN AGREEMENT WOULD CREATE FOR EITHER COMPETITOR, BUT ESPECIALLY STANDARD, UNDER US ANTITRUST LAWS). GELSTHORPE SUGGESTED IN AN ASIDE TO MANFREDO THAT, GIVEN THE SERIOUS PROBLEMS NOW FACING BANANA INDUSTRY IN GENERAL AND UB IN PARTICULAR, IT WOULD BE TO THEIR MUTUAL BENEFIT IF GOP PERMITTED UB TO CONTINUE OPERATING FOR AN ADDITIONAL PERIOD, PERHAPS AS SHORT AS ONE YEAR, BUT WITH AN ENHANCED COMPETITIVE POSITION, AT THE END OF WHICH TIME THE COMPANY WOULD REPRESENT

A FAR MORE ATTRACTIVE ASSET FOR TAKE-OVER THAN AT PRESENT.

6. THE UB REPS INDICATED THE COMPANY WOULD ATTEMPT TO SCHEDULE FIRST FORMAL NEGOTIATING SESSION WITH MANFREDO AND AGRICULTURAL MINISTER GONZALEZ, WHO WAS UNABLE TO ATTEND OCTOBER 16 MEETING, ON NOVEMBER 6.

COMMENT: POSTPONEMENT OF TAX REVISION IMPLEMENTATION IS PROBABLY JUST A DELAY OF THE INEVITABLE, WITH QUESTION STILL OPEN OF WHETHER UB WILL BE MUCH BETTER OFF UNDER ITS PROVISIONS THAN UNDER FLAT \$1.00 A BOX LEVY. LOCAL COURT HAS REJECTED AS "DEFECTIVE" UB'S SUIT CONTESTING LEGALITY OF EXPORT TAX, INCREASING LIKELIHOOD THAT TAX LIABILITIES WILL BE PERMITTED TO BUILD UP FOR USE AS "PAYMENT" IN TRANSFER OF COMPANY'S LOCAL ASSETS TO GOP.  
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